Vol. IX, No. 28 HUMAN EVENTS July 9, 1952

WHERE IS THE "GOING CONCERN" GOING?

By G. W. ECKELBERRY

ABOUT TWENTY YEARS AGO a depression started. Economic doctors were called in to diagnose the malady. One of these doctors was called the Temporary National Economic Commission, which was in fact a conclave of economic medicos. They dug deeply into the factors contributing to the collapse of the capital markets. They wrote many monographs on the subject.

Some of the learned monographs emanating from the TNEC disclosed the remarkable discovery that American business operates in the form of a *going concern.* It should be pointed out that some of these economists had never had business experience. They had never been confronted with the problem of meeting a payroll. They had never sold goods in a competitive market, except perhaps their professorial services. They had never attempted to develop a small local store into a national chain.

Perhaps they had read in the textbooks they used in their classes of the development of the Ford Motor Company, of the A & P Stores, of the Woolworth Stores and many others. Nevertheless these economists of the TNEC found apparently to their utter amazement that the American *going concern* requires constant refertilization to keep going. This, they found, was done largely through self-financing; the corporations actually ploughed back profits in order to keep their equipment in shape and to provide funds for the expansion of their productive capacity.

So, these economists pointed out in their monographs that American corporations had accumulated savings. They had even provided for the replacement of their capital equipment when it became necessary either because it wore out or became obsolete. They found, for example, that if a corporation bought a machine for $20,000 and, on the basis of their experiences with machines of this type, ascertained that it would be useful for twenty years, this corporation recognized a cost of $1,000 each year. In fixing its selling price this "depreciation" of $1,000 was included, with the hope that at the end of twenty years it would have accumulated funds with which a new machine could be bought.

Again, these economists found that American corporations accumulated cash funds with which they could survive seasonal declines and business recessions. They con-

Copyright 1952 by HUMAN EVENTS, INC.
Published weekly at 900 Nineteenth Street, N.W., Washington 6, D. C.

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cluded therefore that American business had excess savings in the form of depreciation accruals, retained profits invested in plant expansion and cash reserves to carry them through periods of reduced revenues.

Thus, they said, the American economy is matured and self-financing. No longer would it be necessary to go to Wall Street hat in hand for funds to finance replacements and expansion. Business, they said, "rolls its own". Therefore, they said, the capital market became stagnant.

These findings were not new to the businessman who had never studied economics. The neighborhood grocer knows that sooner or later he will have to replace his delivery truck and he saves an amount from his annual sales to provide for this necessary expenditure. Not only that, he frequently takes out of the business a bare living, hoping to become the proprietor of a Super Market with the profits which he ploughs back.

IT IS PROBABLY difficult for one who has merely a textbook understanding of economics to appreciate the problems of the management of a *going concern.* Budgets and plans must be carefully prepared. The plant must be kept modern. The personnel must be well *trained and competent.*

During the past few years planning and budgeting have been most difficult. Sudden revisions have become necessary. Unexpected wage increases have been required and in some cases without compensatory price adjustments. Sudden cuts in materials for civilian production, by Presidential decree, have necessitated sudden cuts in production. The recent increase in corporation income and excess profits taxes was made retroactive. Some companies have shifted to war production, which means retooling and a general overhauling of the production organization.

In the event that the current recession becomes more pronounced, business will probably not be able to hold out as it did in the thirties. Then there was a cushion of savings, the very thing that the Keynesian blamed for the depression. Now business is short of working capital. The ratio of current assets to current debt is the lowest for the past ten years. Ten years ago cash on hand, government securities and amounts due from customers amounted to 1¾ times the current debt. Now the ratio is 1¼. Some concerns have been forced to borrow to pay income taxes. In other words, business is short of cash.

The income tax is the chief factor contributing to this stripping down of working capital. The present income tax is, to a considerable extent, a tax on capital. It taxes

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

profits reinvested in plant at the same rate as the profits paid out to share owners. In contrast, England, in its attempt to build a stronger economy, taxes profits ploughed back at a rate much lower than profits paid to share owners in dividends.

Moreover, the American formula for calculating net income subject to tax during this period of inflation results in taxing capital. The deduction for depreciation must be limited to a certain per cent of the capital cost, depending upon its expected service life. It may be that the cost of replacing the machine comes to several times this original cost. A nationally known manufacturing company bought a machine in 1938 for $40,000. Last year it bought another one of the same type at the cost of $162,000. The difference of $122,000 had to come from profits *after taxes*. Assuming an average tax rate of 40 per cent during these 13 years, this company had to earn profits of $200,000 *before taxes* in order to replace this machine. And at the end of thirteen years they were no better off than they were in 1938.

It is not surprising therefore that cash working capital has been reduced. The government simply can not take from American corporations between 25 and 30 billions in one year and expect a healthy capital condition.

THE savings which the Keynesians so criticised at the beginning of the thirties are simply not there. 1951 profits after taxes were less than those of 1950. First quarter profits of 1952 are less than of the corresponding period of 1951. With the higher taxes on workers' incomes, new wage demands are being made to increase the "take home pay"; and higher wages add to the cost of production and lessen the profits margin.

Not only has business lost a large portion of its cash reserves but so has the Federal government. The pay-as-you-go system adopted in 1943 places the government in a vulnerable position in the event of a serious business recession.

Individuals are largely paid up to date through withholdings. Corporations, to a considerable extent, are paid up through the purchase of Treasury Notes and Tax Anticipation Certificates. Since appropriations keep pace with tax receipts, this pre-payment of taxes means that a drop in employment would leave the government with a reduced source of income. Prior to pay-as-you-earn, that is, prior to 1943, the government could look forward to a year's revenue.

To meet the budgetary requirements, then, deficit financing must be resorted to. And the "big debt" economists, who have been rather quiet the last few years, will probably begin talking again about "supporting our economy" and "preserving our

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

social gains". Again they will probably tell us that there is really no reason to worry about a large public debt because "we owe it among ourselves". As a matter of fact they may tell us that we are fortunate in having such a large debt for the reason that it "is an instrument of public policy" and that "it is a means to control the magnitude of the national income and, in conjunction with the tax structure, to effect income distribution". Of course they won't tell us that one sure way to perpetuate high taxes on income of future generations, with the impact upon individual incentive, is to have a huge debt. The *going concern* is built upon the incentive of individuals to produce — not upon a control of our national income through the mechanism of a large debt.

THE *going concern* is the very heart of our institution of individual enterprise and it must be saved. How? There is not one answer. But, one thing is certain — there must be a drastic cut in government spending, which in turn will afford substantial tax relief.

Next, there must be a complete and overall study of our income tax laws which have been built up in a piecemeal fashion over the past 40 years. Some sections, attempting to define "net income" written during periods of comparatively stable price levels, should be reexamined in view of the recent inflationary trend. The dissipation of capital under the guise of income taxes can not be continued. A recent report of a committee of the American Institute of Accountants dealing with the "Nature of Business Income", and a recent study by the American Accounting Association, may point the way to a solution. Both of these reports deserve mature consideration, not merely by accountants, but by all who would preserve the *going concern.*

Finally, there must be written into the law that incomes are to be taxed once and only once. Individual incomes are taxed once, partnerships are not taxed at all; the individual members simply report their respective portions of the partnership profits. In the case of corporations however the income is taxed twice. First, the corporation pays income and excess profits taxes on the profits earned, and again the individual share owner must report his dividends received in his individual return. England, with its desperate need for revenues, still permits the share owner to deduct from his tax his portion of the tax paid by the corporation.

The *going concern* has been badly damaged during recent years but is not yet destroyed. Perhaps it can be saved. If not, socialism in some form and probably with a different name will be the substitute. This is receivership for our economy.

George W. Eckelberry is Professor of Accounting, Ohio State University, Columbus; a member of the Ohio Bar and a Certified Public Accountant.

ADDITIONAL COPIES: One—$.20; six—1.00; ten—1.50; fifty—5.50; one hundred—10.00. Quotations for larger quantities on request.

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

HUMAN EVENTS

FRANK C. HANIGHEN, *Editor* FRANK CHODOROV, *Associate Editor*

Vol. IX, No. 28 Wednesday, July 9, 1952 Washington, D. C.

UNIVERSITY OF MINNESOTA RECEIVED JUL 15 LIBRARY

Message from Bedlam: The Taft machine (at this moment of writing) has run into obstacles in the tumultuous livestock arena, not to mention in the deafening atmosphere of the Conrad Hilton Hotel, center of candidates' headquarters.

The Chicago story, of course, is not the story of a Taft steamroller. It is the story of an Administration steamroller camouflaged as GOP, on which General Eisenhower perhaps unknowingly has mounted.

Hence the big question at Chicago is not a Southern delegation "steal". It is the question whether or not the GOP will become *de facto* an arm of a permanent Democratic Administration. The battle here is something like one of those European political imbroglios in which the Communists infiltrate and take over a local Democratic Party. That Party emerges from a crucial convention with its precious (precious to the Communists for propaganda purposes) title intact but actually under complete control of Moscow. (At this moment the blaring of an Ike loudspeaker crashes through the window while the tramp, tramp of weary delegates' feet comes incessantly through the transom of the hotel room.)

As in the European scene, massive propaganda assists the fifth columnists. Taft people had feared a propaganda blitz at the time of Ike's return from Europe. It seemed to fail at Abilene. But the network set up for the blitz really swung into action over the issue of Southern delegates. In a thousand places the network blared its falsifications of the issue, so that local politicos feeling public pressure hesitated while Taft maneuvered for delegates. The Ike network threw a scare into said delegates which literally split their ears. When Taft offered a decent compromise of the dispute, Lodge refused with the rudeness of Nam IL at Panmunjom.

All this, of course, was initially powered and fuelled by the 80 billion dollar Democratic Administration, but ere long Administration columnists (well-schooled in totalitarian propaganda techniques from long and tender acquaintance with Roosevelt and Truman), together with Wall Streeters anxious for a cut in global Federal spending, took over. For months the big money from New York has been flowing into the Eisenhower movements' coffers. The other day, the one man in position to know informed us that presidents of every big bank in New York save one are behind the General. The sum of $125,000 was paid for one television show.

A pressure-on-delegates campaign via local banks and important local persons (reminiscent of the Willkie blitz) is being carried on. The publisher of a Chicago paper told us that the Ike crowd had placed $15,000 worth of advertisements with him in the past week. A printer here remarked to us that his shop is clogged with orders for Eisenhower material to be sent to delegates' hotel rooms. And so forth. And so today while delegates fumble with the words "MacArthur", "Party Harmony", "Compromise", the clangor swamps all. Afterward this picture will be something to ponder.

Two Lady Delegates: A Taft delegate, a practising lawyer from a Western town, is fifty-five years old. She has been acquainted with politics for nearly thirty years. Clad in a department store print dress, picked up at random while she was thinking about something else, this woman with flushed face, perspiring in the Chicago heat, might serve as a picture of the worried and harassed American middle class.

Copyright 1952 by HUMAN EVENTS, INC.
Published weekly at 900 Nineteenth Street, N.W., Washington 6, D. C.

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Not an intellectual, she is an alert, intelligent working woman who earns her living arguing cases. She knows New Deal law and government from first hand experience. She knows that the life she has led and wants to lead is fading out. To her, Taft is the last hope.

She is no fool; she knows that Taft doesn't hanker after the days of McKinley, she knows you can never go back. Her hope is that Taft can perhaps deflect the United States *a little* from the downward slope toward a deadly collectivist world, periodically erupting in dreary, hopeless and bloody revolts. She hopes that Taft can somehow salvage for her country some of the middle class immunities and assurances that were once the national pride.

Just *how* Taft will do this she does not know, but she believes that he will manfully try and that he is the only person in the country who will try.

She isn't worried about foreign policy. It's too late for such worries. If Taft decides that it is best to extend the Monroe Doctrine to the Yangtze or the Zambesi, she will follow because she believes that he is going to the Yangtze or the Zambesi for American reasons and no other.

She desperately wants the Taft Republicans not only to cinch the nomination, but to win the election. She knows you've got to have the votes. She knows that during the past twenty years the Administration has bought great chunks of the working class, and the middle class too, with handouts from a Treasury that once was subject only to raids by high tariff experts and the G.A.R. She knows that the working classes have got a vested interest in the taxpayer's dollar now, however shaky an interest it may be in these inflationary times. Lots of these hate the Korean War, hate the Reds, hate the Democrats for numerous reasons, but they love handouts and the Democrats have provided the handouts.

How much handout must the Republicans promise? Now, this lady delegate struggles with her conscience, her feelings and her convictions. She knows where she stands, she's got a clear idea of where the general trend will land us in ten years if there isn't *some* shift in direction. She yearns to declare herself and plant her flag openly, yet fears that if she does her side may lose all.

She strains at the seams as she strives to be tactful with Eisenhower delegates, but there is murder in her heart. Why should this interloper, at the last minute, bust in and threaten to ruin what may be the last opportunity for Republican success? Eisenhower as a General was fine, as a candidate he means disaster. She distrusts him as some kind of charming egotist, an irresponsible who will fritter away her country's assets in varous foreign adventures supposed to lead to some kind of world harmony that is just about as near as the millenium.

Was it for this that she put herself through law school, saved her money, did right by her neighbor and cut no more corners than were absolutely necessary? Taft will raise a standard to which the honest, who talk her sort of language, may repair. She knows that there are millions who feel the way she does. Is there a just God? Then let Him work His will . . . NOW!

The Eisenhower delegate, about fifty-five also, lives with her husband and two daughters about sixty miles from New York. Slim, freckled and sandy-haired, she was a finishing school favorite long ago. She is a member of the Foreign Policy Association and, at one time or another, has had stimulating conversations with Jimmy Sheean, John Gunther and Joe Barnes. She feels that Senator McCarthy is a blot on the Republican escutcheon. Although she is tactful with Taft delegates, she dreads them and dreads their power. They are so, well, "commonplace". They are "parochial". They just don't realize that the United States has "responsibilities" now and must lead the van of civilization. "Of course, I ought not to say this, but Truman was right about the dinosaur wing. Isn't there *some* way we can free ourselves of the drag of these small town misfits? Oh, yes, I know they're *worthy*, but they just don't *realize*. How interesting it is that General Eisenhower, though raised in Kansas, escaped these narrowing, in-growing influences. And his mother one of Jehovah's Witnesses, too! Quaint, isn't it, and somehow charming. But then, there was West Point and the War and his wonderful associa-

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tions. You know how it is. How I *wish* it were all over. If Ike wins, and of course he will, won't he, I shall be awfully busy this summer. I just don't think I'll go to the Vineyard at all. You're ever so welcome to the use of the tennis court if you want it."

Gestapo Methods: From the Los Angeles *Daily Record* — which is a publication devoted to legal matters — we learn that during the last year an average of 28 foreclosures a month had been executed in favor of the Bureau of Internal Revenue, in the city of Los Angeles.

When the agents of the Bureau have reason to believe that a citizen has evaded payment of his income taxes, or has been delinquent in the collection of withholding taxes, they apply to the courts for a lien on the citizen's property. Under the law, the application must be automatically granted; there is neither notice, trial nor hearing. The only recourse of the citizen is to put up a bond for twice the amount claimed by the Bureau, which amount includes interest and penalties, so that his property may be released pending a court case. This is a costly proceeding, and the prospect of winning is slim; so, foreclosure usually follows.

Los Angeles, we are told, is a city located in the "land of the free and the home of the brave".

Last Saturday Night: We ventured into the gallery of the House of Representatives at ten o'clock, just to see how a Congress closes up shop for the season. For some time, about an hour, there was nothing doing, not even speeches intended for the folks back home. The Speaker mumbled something that did not disturb the newspaper-readers. It turned out to be a recess announcement. A quarter hour later, for some reason unknown to the gallery, the Members started strolling into the chamber. Then, over the loudspeaker we heard a Member offer a resolution. The clerk read it. A Gentleman from Georgia rose to ask by what formula the Joint Committee had selected the projects for which appropriations had been made; he assured the Members that he was not pleading for the inclusion of his pet project, which had been eliminated, but was curious to know what yardstick the Committee had been using. A Gentleman from Pennsylvania jumped to the microphone to second the point of inquiry; his state, which he assured the House had contributed quite a bit to the national Treasury, needed a dam very badly and had been passed by; he wanted to know why. Other Representatives joined in the demand for a yardstick; apparently each of them had lost out on some project.

The Member who had offered the resolution for the appropriations bill, in behalf of the Joint Committee, shouted, with gestures, that this was a compromise bill: "As you gentlemen know", he added, "these things are always settled by compromise." And his peroration, repeated several times, was: "I did not get *one red cent* out of this compromise."

Being naive in our point of view, it seemed to us that the Members were like a pack of wolves quarrelling over their respective shares of a carcass. But then, we reflected, the taxpayers back home must be of like mind. Nothing more in the way of government can be expected so long as the flow of dollars into the Treasury continues unabated. We went home.

Controls: Thanks to the string-pulling agility of Ellis Arnold, OPS Director, the Defense Production Act got through this last session of Congress. As every housewife knows, control laws never hold down the price of scarce commodities (see, potatoes), and certainly do not hold up prices of commodities that are in abundance. Many a retailer during the past year looked yearningly at the prices set by the OPS as he marked down his merchandise.

Despite the uselessness and bankruptcy of OPS, the agency was continued, and with an appropriation of $70 million for 1952. Congressmen who voted for it were motivated by the fear of being labelled inflationists during this election year. Pressures of various kinds were brought to bear upon them by the "brains" of the agency, who were aiming not only to continue their jobs but also to use their positions for furthering their socialistic schemes.

An instance of the way pressure was used on Congress comes to light. In 1951, Representative A. S. Herlong, Jr., of Florida, sponsored an amendment of the OPS bill which would permit each retailer to

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mark up his merchandise on the basis of prices prevailing in the pre-Korean period, May 25 to June 25, 1950. The amendment was emasculated, and OPS, although lenient with other retailers, denied grocers the privilege of computing their own markups.

So, when the bill came up for extension of the OPS this year, the grocers went to Mr. Herlong and asked him to reintroduce his original bill. He said he would. The grocers had the support of the automobile dealers. Suddenly, on June 25th, Mr. Herlong told the grocers he would not introduce the amendment because, he said, he was afraid it would lead to increase in the price of food. However, it appears that Ellis Arnold had made a deal with the automobile dealers that would give them some relief from OPS nuisance — and it turns out that Mr. Herlong is an automobile dealer.

We referred above to the motives of OPS "brains". It is an open secret that men like Edward F. Phelps, Jr., Director of Price Operations (and a left-over from the notorious OPA), and Gardner Ackley, economic advisor to Arnall, are striving to have written into the law the profit-control concept which is basic in the economics taught in our colleges. This concept holds that prices must not be increased unless the industry, as a whole, is earning less than a certain percentage for a certain period. Thus, OPS says an industry must prove it is earning less than 85 per cent of its best years in the 1946-1949 period before a price increase will be allowed.

This industry earnings standard has not yet been approved by Congress, but OPS takes it as gospel. By this standard, OPS can attempt to force industries, and individual firms, to absorb increased costs, including wage increases, without adjusting its prices. It is this power of life and death over industry that the bureaucrats are aiming for, and so long as they have jobs from which to operate they will continue to strive for it.

The Lesson of Katyn: On the same day that Senator McCarran reported the findings of the Senate Committee on the IPR, a special committee of the House reported its findings on the Katyn massacre.

The Committee has assembled overwhelming judicial proof of what was known to all competent students, that the Russian NKVD murdered over 10,000 officers of the Polish army, and buried them in Katyn Forest and other mass graves. The Committee has made excellent use of its findings in relation to our present needs. It points out that American troops are now fighting the same enemy, and some 4,000 missing American prisoners of war, and unknown numbers of Koreans, may have met the same fate.

By this one act the Soviet leaders destroyed very nearly all the intellectual classes of Poland — the officers, engineers, chemists, the patriotic leaders of the next generation. This is "selective genocide" or "selective, discriminate and carefully planned murder intended to eliminate solely the leadership of a nation, yet keep the masses, the rank and file, alive for exploitation, for slavery or whatever purpose was in the minds of the murderers", in the words of Representative Furcolo of Massachusetts. Is this, he asks, Russia's pattern of conquest for other nations today?

The Committee's report is not complete. It does not enlarge on another body of evidence — the incontrovertible proof that Colonel John Van Vliet and Lt. Col. Donald B. Stewart gave full details of Russia's guilt to General Bissell of G2 in 1945, and that all copies of the reports, and all references to the existence of them, have disappeared from the confidential files of State or Defense.

The Committee has thus spared the Administration the embarrassment of explaining in an election year why many important documents unfavorable to Russia were destroyed by men high in the Administration. They recommend instead that the President submit the findings to the UN. But UN is subject to Soviet veto. Do we need UN to help clean out of our Defense and State Departments the men who may hide crucial documents if we are at war with the Soviet Union?

Entered as second class matter at the Post Office, Washington, D. C.

Quotation up to a paragraph is permitted with credit to HUMAN EVENTS. For reproduction or more extensive quotation address requests to HUMAN EVENTS, 900 Nineteenth Street, N.W., Washington 6, D.C. Trial subscription, three months for $3. Six months, $5.50. One year, $10. Two years, $18. Domestic airmail (including APO and FPO) one year, $12.00; foreign (regular mail) one year, $11. Foreign airmail rates on request. Please remit in U.S.A. DOLLARS. Allow two weeks for new subscription or change in address to become effective.

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED